

Transactional and Transformational leadership impact on Organizational Performance: Evidence from Textile sector of Pakistan

Muhammad Ahmad, Tayyaba Ejaz*

University of Central Punjab, School of Accounting and Finance, 1-Khayaban-e-Jinnah Road,
Johar Town, Lahore, Pakistan

*Email: tayyabaejaz772@gmail.com

Abstract

The research aimed to examine the impact of leadership styles on organizational performances in the textile industry of Pakistan. The previous studies suggest that leadership has a significant consequence on the performance of any business venture. The study focused on transformation, transactional leadership styles. A descriptive research design was used to identify leadership styles practiced in textile industries of Pakistan. Questionnaires were used for data collection. The target population is 140 individuals. The results indicated that both leadership styles had significance impact on organizational performance though at a varying level. Transactional leadership had the highest impact on the performance of the organization followed by transformational leadership style.

Keywords: Organizational performances, Transactional leadership, Transformational leadership

Introduction

Profitability and growth of the organization depends on the Performance of the organization (Ben-Oz & Greve, 2015). In business organizations, investors endeavor to make sure that their organizations perform well to acquire more benefit, develop quickly and accomplish focused edge in the business. For organizations to perform well, beside considerable and tricky resources, successful and dynamic leadership styles strongly affects the performance of the organization (Wang, Sui, Luthans, Wang, & Wu, 2014). Organizations can grow and progress through continues focus on performance.

Businesses around the globe have raised some serious issues regarding the impact of leadership styles on the overall performance of the organization (Mitrev, Engwall, & Jerbrant, 2016). Worldwide economic recession has forced the researchers to find the right leadership styles which can resolve the upcoming challenges around the world (Priest & Gass, 2017). Leader and follower connection is most essential talk now daily in corporate world (Day, Fleenor, Atwater, Sturm, & McKee, 2014). Good leaders are important for maximizing output. The leadership model are being used, to measure the effectiveness of leadership through input and output of performance (Choudhar, Akhtar, & Zaheer, 2013).

Earlier leadership research has typically contained some of the following shortcomings. Researchers have focused mainly on the transformational and transactional paradigms following Bass (1985), yet barring the broad established administration worldview and the rising worldview of natural or disseminated authority (Avery, Bergsteiner, & Jing, 2015). In today's dynamic business environment the most important resource of an organization is categorized as human resource and skills of a person. The capability of an organization to retain its headcount is dependent on organizational leadership. People will be more willing to work under Steve job then under single owner organization where no leadership and limited vision (Armstrong, 2014). In present working environment employees of an organization need authority and ownership of their work which can only be possible under effective management and leadership.

The most dominated & noticeable sector in Pakistan is none other than the Textile Industry. However, due to the recent change in organizational structures, automation & diversity has reduced the employee moral resulting in higher employee turnover rate (Farooqui & Ahmed, 2013). In a recent survey, it has been found that textile industry contributes to almost 46% manufacturing industry, 52% in exports. Due to this huge scale of manufacturing it provides 40% of the population an employment opportunity and also contributes to around 8.5% in GDP (APTMA, 2018). Although there is no denial of the growth in this sector, there are certain issues faced both internally & externally which limit its capacity to reach full potential. One of the top most issues faced by sector is that it's a labor intensive industry, and hence the prosperity of the industry depends heavily on the performance and behavior of its workers (Hassan, 2016). To achieve the overall best performance, employers need to put more focus on employee retention strategies.

Several studies have been conducted to see the impact of leadership styles on organizational performance (Birasnav, 2014; Avery, Bergsteiner, & Jing, 2015; Hartnell, Kinicki, Lambert, & Fugate, 2016; Priest & Gass, 2017). There is, however, contrivances pertaining to the respective impacts of transformational and transactional leadership styles on performance of the organization. Certain researches (Noruzy, Dalfard, Azhdar, Nazari-Shirkouhi, & Rezazadeh, 2013; Khan, Asghar, & Zaheer, 2014) had indicated that transformational leadership positively affect the performance while transactional leadership had negative impact on performance (Asrar-ul-Haq & Kuchinke, 2016). Other studies, such as the investigation conducted in Nigeria had built up that while transactional leadership had significant positive effect on performance, and transformational leadership style had positive however irrelevant impact on performance (Obiwuru, Okwu, Akpa, & Nwankwere, 2011). On the other hand some of the researcher also discovered that there is no correlation between leadership styles and organizational performance (Ejere & Abasilim, 2013). However, there are only few studies that have investigated the effects of leadership styles on organizational performance through the mediating variable of knowledge management, learning organization, and innovation (Noruzy, Dalfard, Azhdar, Nazari-Shirkouhi, & Rezazadeh, 2013; Birasnav, 2014). Consequently this present study specifically reinvestigates the actual impact of transactional and transformational leadership styles on organizational performance in Textile Industry of Pakistan.

Literature Review

Leadership remains the spine of any business organization and therefore its importance can never be belittled. Management ability to execute collaborated efforts is depended on leadership competence. Excellent leader both inspires the potential of juniors to enhance efficiency and meet their needs in organizational goal achievement process. Different studies have been done on the matter over years though no common and agreed leadership definition so far. However, Leadership is defined as the process through which a person influences a group of people in attaining common set goals and objectives (Obiwuru, Okwu, Akpa, & Nwankwere, 2011). Leaders have shifted from the legitimate power of persuading people to perform their task and now concentrate on interactions with their juniors to rise and widen the interests (Owens & Hakman, 2016).

The nature of the relationship between leadership styles and organizational performance has attracted considerable research interest over time. Most research discoveries demonstrated that leadership practices effect on and is fundamentally identified with organizational performance (Hartnell, Kinicki, Lambert, & Fugate, 2016). Transactional and transformational leadership are the most conspicuous leadership styles. Transactional leadership bases its argument on contingent rewards and management-by-exception (Bass B. a., 1985; Bass B. b., 1990; Si & Wei, 2012). On the other hand, transformational leadership consider four bases, which are inspirational motivation, idealized influence, individual consideration and intellectual stimulation (Bass B. a., 1985; Koçel,

2011; Yıldız, Baştür, & Boz, 2014). It also motivates the subordinates to surpass their direct self-interest for organization's mission and vision sake. The difference in the two leadership styles lies in the way of employees' motivation (İşcan, Ersar, & Naktiyok, 2014).

The behavior of a transformational leader originates from personal values and beliefs and motivates junior staff to work hard to achieve than expected. Transformation leadership engages one or more persons with other people to uplift one another (Kang, Solomon, & Choi, 2015). Managers who embrace transformation leadership styles normally focus on followers' development and their wants by developing value system for workers, motivation level and moral as well as skill development. The approach acts a link between the managers and the subordinates that develop a clear understanding of employee's interests, values, and level of motivation.

Several scholars in their organizational studies have recently focused on the transformation style of leadership. The style rises in periods of organizational disaster when questions of fundamental morals, customs, and justice are brought in (Kriger & Zhovtobryukh, 2016). The style calls for an alluring authoritarian structure that spearheads temporary actions engagements, and incidents, which are strange, and external from the scope of every day's existence.

The investigation on the banking sector of Pakistan demonstrates that transformational leadership has a more huge effect when contrasted with transactional leadership on organizational performance. Firms can boost their benefits after picking the proper leadership style for their organizations (Sha). A Study carried out on service sector of Pakistan shows that, transformational leadership has more impact on organizational performance as compared to servant leadership (Choudhar, Akhtar, & Zaheer, 2013). Furthermore the study among manufacturing companies of Iran, also found that transformational leadership decidedly affected organizational development and organizational performance (Noruzy, Dalfard, Azhdar, Nazari-Shirkouhi, & Rezazadeh, 2013).

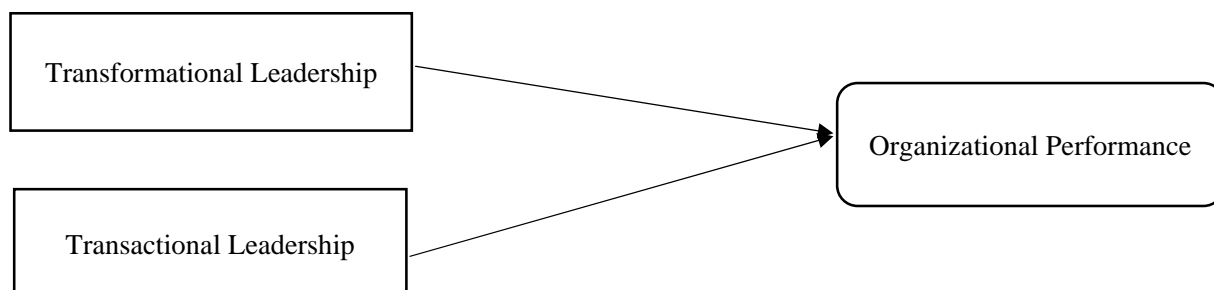
On the other hand investigation carried out in Nigeria demonstrated that while transactional leadership style had huge constructive impact on performance, transformational leadership style had positive however insignificant effect on performance (Obiwuru, Okwu, Akpa, & Nwankwere, 2011; Ejere & Abasilim, 2013). The study carried out in Istanbul on service and industry sector show that two leadership styles transformational and transactional have positive effect on business performance (Yıldız, Baştür, & Boz, 2014). While the investigation carried out in Turkish SME's states, that regardless of a positive connection between transactional leadership and organizational performance, there exist no significant circumstances and end results connection between these factors. On the other hand transactional leadership does not have a meaningful effect on organizational performance (İşcan, Ersar, & Naktiyok, 2014).

From the review of existing researches on leadership styles, it is found that few researchers trust that organizational performance is effected by leadership styles while others contradict this. Gaps and unanswered queries remain. Consequently, the present research is intended to reconsider the effect of initiative style on organizational performance and hence contribute definitively to the assortment of developing writing and information here of study

Conceptual Framework

This section is a graphical explanation of the main scopes that are studied. It sought to define relationships amongst various variables that are under study and their importance to the study as well as seeking foundation on relationships of the concepts. To determine the impact of different styles for leadership on organizational performance in the textile business of Pakistan, a theoretical framework highlighting transformation and transaction leadership styles as independent variables in

connection to specific objectives of the study. The organizational performance represented the dependent variable.



Methodology

For the purpose of this study, the individuals contacted were middle and top level employees with minimum of one year of experience from the Textile Industry in Pakistan. Though numerous researches have been conducted on leadership model in the Western context, there is limited research with regard to the Eastern context (Oner, 2012). Therefore reason to empirically test the model is to address the practical perspective by examining the impact of transformational and transactional leadership on organizational Performance in the context of textile industry of Pakistan. The research design used to complete the investigation was the descriptive overview. 140 samples were drawn through simple random sampling from the textile industry of Pakistan. The survey strategy was used to complete the research. A structured Multifactor Leadership Questionnaire (MLQ) was used for data gathering and analyzed using SPSS (Bass B. M., 1997). MLQ is a broadly used questionnaire and MLQ 360 (5X short) is the most recent version. It is used to quantify impact of leadership styles on organizational performance (Asrar-ul-Haq & Kuchinke, 2016). 5 point Likert scale is used because it is easy to handle (Norman, 2010).

Results

To test the correlation between independent variables and dependent variables hypothesis, Factor analysis, reliability tests and regression analysis was used. One of the most frequently used indicators of internal consistency is Cronbach's alpha coefficient. Ideally, the value of reliability Statistic supposed to be above 0.7 (Devellis, 2003). For this Questionnaire it was .718 so the questionnaire is highly reliable and will be giving credible results. The outcomes indicated that transformational ($B = 0.307$, $p = .020$) and transactional ($B = .451$, $p = .000$) displayed a noticeable and positive influence on performances of the organization. The results are represented in the tables below.

Table: 1 ANOVA

Model	R	R. Square	Adjusted R	Std. Error	Durbin-Watson
1	0.473a	0.224	0.206	6.32955	2.308

In table 1, R² value is 0.224. The impact of independent variables on the dependent variable jointly explain 22.4% whereas 77.6% effect on organizational performance is explained by other variables not taken into account.

Table: 2 Coefficients

Model	Unstandardized Constants		Standardized Constants	t	Sig.
	B	Std. Error	Beta		
Constant	36.976	4.842		7.637	.000
Transformational	.307	.130	.241	2.366	.020
Transactional	.451	.137	.336	3.297	.001

a. Independent Variables, Transformational, Transactional

b. Dependent Variable: Organization performance

Table 2 explains the impact of leadership styles on organizational performance. For transformational leadership and performance t value is 2.366 and p value is .020 which is less than .05. So, transformational leadership has Significant Impact on organizational performance. For transactional leadership and performance t value is 3.297 and p value is .001 which is less than .05. So, transactional leadership has Significant Impact on organizational performance. F-statistics showing 12.128 with significant p-value, it mean model is good.

Table: 3 Correlations

		OP	Transformational	Transactional
OP	Pearson Correlation	1	.352**	.415**
	Sig. (2-tailed)		.001	.000
	N	140	140	140
Transformational	Pearson Correlation	.352**	1	.330**
	Sig. (2-tailed)	.001		.002
	N	140	140	140
Transactional	Pearson Correlation	.415**	.330**	1
	Sig. (2-tailed)	.000	.002	
	N	140	140	140

Table 3 shows that Transformational leadership style has Pearson correlation .352, transactional leadership style .415 indicating that both are positively correlated with organizational performance. The correlation shown in table 3 is significant at 1 % level of significance. Both leadership styles have positive effect on organization performs.

Conclusions

The purpose of this study is to analysis the impact of transactional and transformational leadership on organizational performance. Results from the analysis showed that transformational leadership had a significant relationship with organization performance. The leaders use values and ideologies that motivate their subordinates for a determined achievement level (Birasnav, 2014). Principles and values increase the trust and confidence level thus leading to improved ownership and sacrificial spirit. Therefore, transformational leaders are vital as they motivate and help workers to work on improving organization's performance. The finding confirms the finding of previous literature that stated that transformational styles of leaderships have positive influence on the organization's performance

The study also noted that transactional style of leadership had a positive relationship with organization's performance though with a higher impact compared to transformational leadership style. This is evident because transactional leader emphasizes on tasks performed by the organization staffs rather than the organization (Asrar-ul-Haq & Kuchinke, 2016). The leaders extend in the textile industry to have visions and personality that inspires their subordinates for effective vision execution significantly impacts on the performance of the organization.

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